GCS CREDIT UNION

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May 16, 2014

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

RE: Comments on Proposed Rule: PCA – Risk Based Capital

Dear Mr. Poliquin:

Thank you very much for the opportunity to comment on the Proposed Risk Based Capital Rule. GCS Credit Union was established in 1941 and provides services to over 40,000 members in ten counties of southern Illinois. As a Credit Union who has never had an issue being well capitalized, we believe that this proposal will have a negative effect on our membership and hinder the long-term strategies of our Credit Union.

In as much as we understand NCUA's concerns about maintaining adequate capital, the new proposal is not equitable to the Basel III requirements that apply to banks. The unique structure alone of Credit Unions should warrant further consideration. We do not have the ability to raise capital through the same means and yet the risk weightings you impose on Credit Unions are far more restrictive.

As for the proposed rule, we would like to address several areas that we believe need further discussion:

NCUSIF Deposit
Removing the NCUSIF Capitalization Deposit from the risk-based capital numerator is not consistent with showing that the NCUSIF Capitalization Deposit has any value. This deposit is valid asset that can be refunded for various reasons from purchasing private insurance to conversion to a bank charter. It can also provide an additional buffer against NCUSIF losses in addition to the failed credit union's capital.

Risk Weighting
The risk-weight for cash on deposit at the Federal Reserve Bank should be 0%. Since the Federal Reserve is one of the NCUA designated sources for emergency liquidity, it seems that there would be little to no risk in maintaining those balances at the Federal Reserve.

As far as investments are concerned, the risk weightings for credit unions are substantially higher than that of banks. This inconsistency puts credit unions at huge disadvantage. All Treasury securities and those guaranteed by NCUA or FDIC should carry a 0% risk weight, no matter when they mature. Investments with average lives greater than 5 years are given unrealistic risk weights of 150% in the 5 – 10 year average life and 200% in the greater than 10 years. The risk weights for these same securities in the banking model are 20%. A 5 ½ year investment has twice as much risk weighting as a 4 ½ year investment. Our credit union was one that took the barbell approach to investing when rates started to decline. Having the ability to place the funds out in the 5 year range provided the additional yield the credit union used to maintain our dividend rates at a higher level than our bank competitors. Given the risk weights proposed, we would not be afforded the same opportunity.

Share secured loans have a risk-weight of 75%, but since we have access to the collateral, these loans should have a risk-weight of 0% to 20%. We have never taken a loss on any share secured loan.

We believe that increased risk-based capital requirements for higher concentrations of residential mortgage loans are too high, and exceed the capital requirements specified in for small banks in Basel III. For example, residential mortgage loans that exceed 35% of assets have a risk-weight of 100% in the NCUA proposal versus 50% in Basel III. This is an area dear to Credit Unions as we strive to become our member's primary financial institution and will hinder our ability to compete.

Loans Held for Sale
In the proposed regulation Loans Held for Sale are risk weighted at 100%. Under the BASEL III regulation, the risk weight is 0% if sold within 120 days. These assets are more a receivable than a loan and therefore should carry a 0% risk weight.

Mortgage Servicing Rights
Although we do not offer this service currently, it is an area that we are contemplating. However, with the proposed risk weighting of 250%, there is not much of an incentive to pursue building the portfolio. Selling the longer term mortgages and maintaining the servicing rights will help reduce the interest rate risk on the balance sheet and provide the continued relationship we wish to maintain.

Allowance for Loan Loss Limitation
We disagree with the proposed rule limiting the allowance for loan losses in the numerator calculation to no more than 1.25% of risk assets. Due to the already increased risk-weight associated with delinquent loans, we feel that the limitation is not justified. Most credit unions hold an average of 12 months of historical losses and with the likelihood of changing accounting rules in the near future, credit unions will be unfairly penalized.

Examiner Subjectivity
GCS Credit Union has always had a very amicable relationship with our examiners, so in as much as we do not fear this subjectivity, we can see where this latitude to insist a credit union provide additional capital based on an examiners discretion, may not be justified. The capital rule should be uniform for all credit unions.

Transition Period
If Credit Unions are to reposition their assets in response to the new rule, the implementation period is too short. Eighteen months is not enough time to institute this transition especially when the banks were given a multi-year development and implementation period.

Credit unions came through the worst financial crisis since the Great Depression with their capital intact. By instituting these new capital requirements, it will put credit unions at a competitive disadvantage with the banking industry. Essentially the result will be detrimental to our members as we will have to generate more profit to maintain a specific capital level. The additional profit would hamper the credit unions ability to provide better loan and deposit rates for our members.

We sincerely appreciate the opportunity to express our concerns. Our ability to work together in the past has served our industry well. As you know, credit unions are different not only in structure, but with our approach of "people helping people" on a daily basis. Please take another look at the proposal to ensure it is comparable to the Basel III requirements for banks and give credit unions the ability to continue to grow and succeed while making a difference in our member's lives.

Sincerely,

Keith A. Burton
President/CEO

Tamara J. Wofford
Tamara J. Wofford
CFO/SVP

Cecil Williams
Cecil Williams
Chairman of the Board